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FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC PRIORITY 2275
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUEHC/DEPT OF LABOR WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC
RHMFIUU/CDR USSOUTHCOM MIAMI FL
RHMFIUU/CDR USNORTHCOM
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 02 MEXICO 001868

SENSITIVE
SIPDIS

STATE FOR A/S SHANNON
STATE FOR WHA/MEX, WHA/EPSC, EB/IFD/OMA
STATE FOR EB/ESC MCMANUS AND IZZO
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/GERI WORD
TREASURY FOR IA (LUYEN TRAN, RACHEL JARPE)
TREASURY FOR WILBUR MONROE, BILL FOSTER
DOE FOR INTL AFFAIRS KDEUTSCH, ALOCKWOOD, AND GWARD
NSC FOR RICHARD MILES, DAN FISK
EXIM FOR MICHELE WILKINS
STATE PASS TO USTR (EISSENSTAT/MELLE)
STATE PASS TO FEDERAL RESERVE (BORA DURDU)

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [MX](#)

SUBJECT: MEXICO'S STOCK EXCHANGE GOES PUBLIC

REF: A. MEXICO 1504

[1](#)B. 07 MEXICO 6187

[1](#)1. (SBU) SUMMARY: The Mexican Stock Exchange (BMV) sold a 41% stake of itself in an initial public offering (IPO) on June 12. After four days of trading, shares of the exchange finished 5.5% lower than the initial price set on June 12, losing ground alongside the broader market. Many consider the offering a success because the BMV was able to raise much-needed resources and because the IPO will make the BMV more transparent. Other local experts are more pessimistic, however, citing the BMV's weak fundamentals.8 END
SUMMARY.

Stock Exchange Makes its Long-Awaited Debut

[1](#)2. (U) The Mexican Stock Exchange (BMV) launched an initial public offering (IPO) to list its own shares on June 12. The BMV -- which had been closely held by Mexico's banks and brokerages -- sold a 41 percent stake. The IPO was oversubscribed by 12 times in Mexico and seven abroad. More than 13,600 individual investors and 100 institutional funds participated in the operation. The strong demand notwithstanding, in its first day of trading, exchange shares slipped one Mexican cent from the \$16.50 pesos (USD 1.60) a share price set on June 12. The BMV stock closed at 15.60 pesos (USD 1.52) on June 18, losing ground alongside the broader market.

Local Reaction Mixed

[1](#)3. (SBU) The chief equity analyst for HSBC in Mexico told Econoff on June 18 that the IPO was successful because the BMV was able to raise the resources it needed to increase its stake in the derivatives exchange and other related businesses, and to invest in new technology. He believed that the timing of the placement was not a problem because

the Mexican stock exchange has been profitable this year despite global market volatility. Alejandro Reynoso, the BMV,s Managing Director of Corporate Strategy, also expressed his belief that the offering was successful, noting that the IPO will make the stock exchange more transparent. He said the fact that the BMV,s Board of Directors now has a majority of independent members cannot be understated.

14. (SBU) By contrast, another local equity markets expert told Econoffs on June 17 that he was surprised demand for the IPO was as strong as it was because the issue was not &high quality.8 This expert and an economist from Banamex cited the shortage of new issues in Mexico -- the BMV only had four IPOs last year -- noting how new listings spell future trading growth for stock exchanges. He added that Mexico faced competition from the Brazilian Bovespa exchange,s IPO in 2007 since some investors who bought into the Bovespa did not feel the need for more exposure to equity trading in Latin America. Reynoso agreed with this assessment, commenting that this was one of their biggest challenges during the selling process. BMV officials had to convince investors that the Mexican exchange is more open and has closer relations with the U.S. and other Latin American exchanges than Brazil, and that investors need exposure in both.

15. (SBU) When asked why demand for the new shares far exceeded supply, the pessimistic equity markets expert said investors, including institutional buyers, wanted in on the operation in the event that the BMV is consolidated or sold to another entity (e.g. the New York Stock Exchange). He remarked that there has been talk of such an event down the

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road. The fact that the BMV is not just a stock exchange but also owns the majority of the clearing and settlements businesses and the bulk of the country,s futures and options exchange also sparked investor interest in the offering. The equity markets contact remarked that some market players have raised the idea of creating another exchange, but noted that he did not see this happening in the foreseeable future.

16. (SBU) This expert said he hoped the IPO would lead to a shakeup in the BMV,s management -- a group he strongly criticized for not doing more to grow the stock exchange. He was particularly harsh regarding BMV President Guillermo Prieto,s public assertion that the stock is likely to be added to the benchmark IPC stock index next year. The contact called this statement an abuse of power since the authorities have no way of knowing if the stock will meet the requirements to be added to the index. He likened Prieto,s assertion to a team owner who will do anything to ensure his team wins. He remarked that being in the index is important because local pension funds buy indices, not individual company stocks.

17. (SBU) Both Reynoso and the HSBC analyst expected the price of the shares to stabilize. Reynoso was not surprised about the volatility in the stock,s value because equity markets have been performing poorly. HSBC said that the price seemed to be following the market as a whole and that it was possible the price would rebound. The long-term value of the stock will depend in part on future financial reports the BMV releases. He noted that the price was particularly volatile on June 17 because investors looking for a quick profit were selling shares, while investors with a longer term vision, such as institutional investors, were buying. The pessimistic equity markets expert, by contrast, said that the company,s poor fundamentals suggest the BMV,s shares will not perform well.

Comment

18. (SBU) Despite the authorities, public and private

statements to the contrary, they are probably a little disappointed with local reaction to the IPO. Investor and media interest in the offering was dim in comparison to the Bovespa,s IPO last year. Of course, they must have known that volatility in global equity markets, the BMV,s limited IPO activity, and the fact that a handful of companies dominate their respective sectors in Mexico would be a drag on the offering. Regardless, any move that encourages the exchange to be more active and transparent is welcome. Visit Mexico City's Classified Web Site at <http://www.state.sgov.gov/p/wha/mexicocity> and the North American Partnership Blog at <http://www.intelink.gov/communities/state/nap/> / GARZA